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Natural Gas Weekly Update

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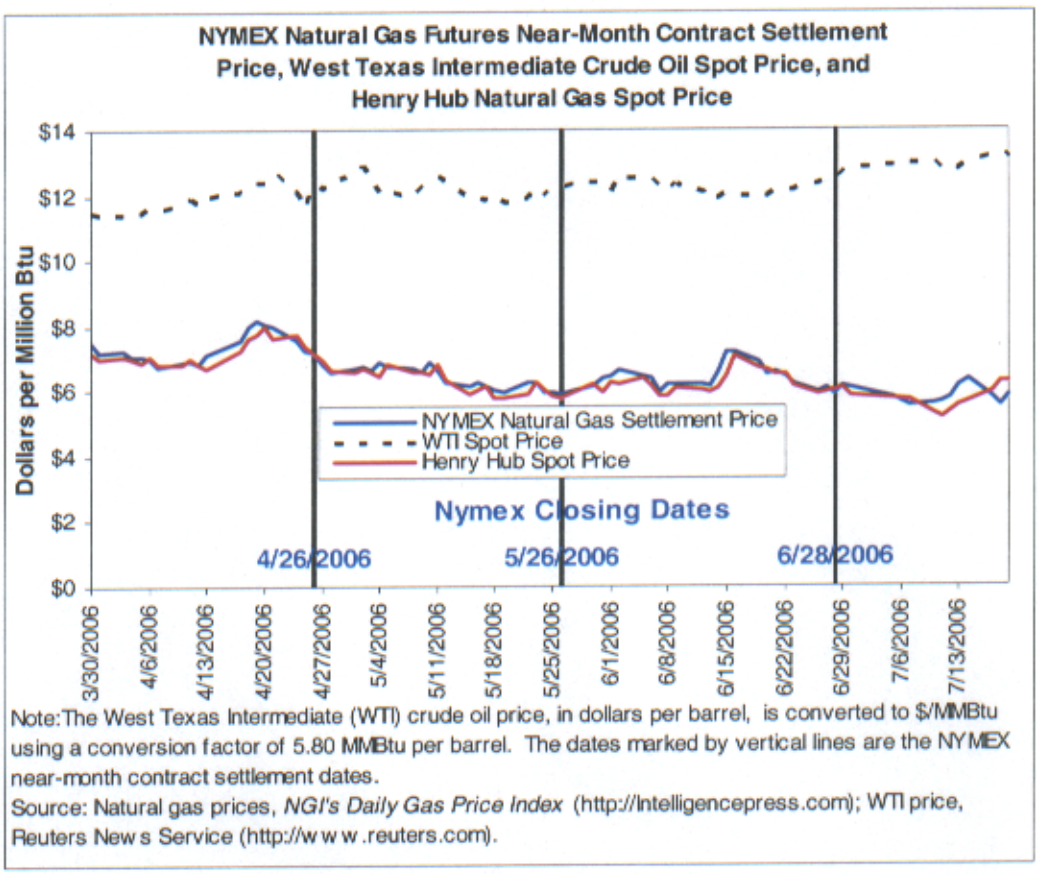
Overview: Friday, July 20 (next release 2:00 p.m. on July 27, 2006)

Since Wednesday, July 12, natural gas spot prices increased at most market locations in t Lower 48 States. On Wednesday, July 19, prices at the Henry Hub averaged $5.89 p MMBtu, increasing 24 cents per MMBtu, or about 4 percent, since the previous Wednesda The NYMEX futures contract for August delivery at the Henry Hub settled at $5.862 p MMBtu, on Wednesday, July 19, climbing 8 cents per MMBtu, or about 1 percent, from t settlement price of $5.782 last Wednesday, July 12. Natural gas in storage was 2,763 Bcf of July14, which is almost 26 percent above the 5-year average. The spot price for W Texas Intermediate (WTI) crude oil decreased $2.20 per barrel, or about 3 percent, on t week (Wednesday-Wednesday) to $72.79 per barrel or $12.55 per MMBtu.



Note:The West Texas Intermediate (WTI) crude oil price, in dollars per barrel, is converted to $/MMBtu using a conversion factor of 5.80 MMBtu per barrel. The dates marked by vertical lines are the NYMEX near-month contract settlement dates.

Source: Natural gas prices, *NGI's Daily Gas Price Index* (http://Intelligencepress.com); WTI price, Reuters News Service (http://www.reuters.com).

Prices:

Spot prices climbed since last Wednesday, July 12, with increases ranging between 1 and cents per MMBtu at most market locations. Increased cooling load resulting from the h temperatures that prevailed in most of the Lower 48 States likely contributed to the pri hikes. As a heat wave enveloped most of the Lower 48 States late last week, prices rallied most market locations through Monday, July17, but declined somewhat thereafter in tradi during the next 2 days. The largest price increases since last Wednesday, July 12, occurr principally in the southernmost markets, including Florida, Alabama, Louisia Arizona/Nevada, and the East and West Texas regions. By far the largest price increas occurred in Florida, where prices spiked $1.15 per MMBtu, or about 18 percent at the Flori Gas Transmission (FGT) citygate. Meanwhile, prices rose about 26 to 39 cents per MMB

or about 4 to 6 percent on average in Alabama, Louisiana, Arizona/Nevada, and the East a West Texas regions. Elsewhere, price hikes were widespread but less pronounced, rising 6 18 cents per MMBtu or about 1 to 4 percent on the week. Despite the increases, prices a below last year's levels, with differences mostly ranging between $0.85 and $2.11 p MMBtu, or about 12 to 28 percent. Prices at the Henry Hub are about $1.81 per MMBtu about 24 percent below last year's level. This year's lower price level reflects an improv natural gas supply situation relative to last year owing in part to the absence of hurrica activity in the Gulf of Mexico this year. In contrast, by this time last year five tropic storms, including three hurricanes, had threatened production in the Gulf of Mexico. Anoth factor contributing to the lower price level this year relative to last year is the level working gas in storage, which remains significantly above the 5-year average and last yea level at this time. This likely is mitigating injection demand for natural gas.

Spot Prices ($ per MMBtu)	Thur. 13-Jul	Fri. 14-Jul	Mon. 17-Jul	Tue. 18-Jul	Wed. 19-Jul
Henry Hub	5.93	6.28	6.27	6.02	5.89
New York	7.34	7.42	8.18	7.18	6.73
Chicago	5.79	6.15	6.17	5.90	5.82
Cal. Comp. Avg,*	5.80	6.11	6.18	5.88	5.81
Futures ($/MMBtu)					
Aug delivery	6.129	6.347	5.783	5.555	5.862
Sep delivery	6.334	6.532	5.960	5.669	5.984

*Avg. of NGI's reported avg. prices for: Malin, PG&E citygate, and Southern California Border Avg.
Source: NGI's Daily Gas Price Index (http://intelligencepress.com).

At the NYMEX, prices for the futures contracts for the next 12 months were mixed with th 12-month futures strip (August 2006 through July 2007) posting a slight decline of about 1 cent per MMBtu since last Wednesday, July12. The futures contract for August delivery at the Henry Hub settled yesterday (July 19) at $5.862 per MMBtu, increasing about 1 percent since the previous Wednesday, while the September and October futures prices declined about 1 and 11 cents per MMBtu, respectively. Prices for the futures contracts for delivery during the heating season months (November 2006 through March 2007) increased by less than 1 percent since last Wednesday. These contrasting price movements on the futures markets likely reflect the high level of working gas in storage at this time, which temporaril may allow storage operators to defer their injections into storage as the 3-month strip (Augu 2006 through October 2006) is trading at a 15-cent premium to the Henry Hub spot price. However, because of storage capacity limitations and uncertainty about high temperatures o potential hurricane-related production disruptions later this summer, the storage overhang may not persist through the 2006-2007 heating season. This is reflected in the futures contract prices for the upcoming heating season months (November 2006 through March 2007), which are about $3.56 per MMBtu higher than the Henry Hub spot price on average. Overall, the 12-month futures strip (August 2006 through July 2007) traded at a premium of $2.27 per MMBtu relative to the Henry Hub spot price, averaging $8.16 per MMBtu as of Wednesday, July 19. Differentials of this magnitude between the spot price and the futures contract prices provide suppliers strong economic incentives to inject gas into storage.

Recent Natural Gas Market Data

Estimated Average Wellhead Prices

	Jan-06	Feb-06	Mar-06	Apr-06	May-06	June-06
Price ($ per Mcf)	8.66	7.28	6.52	6.59	6.19	5.80
Price ($ per MMBtu)	8.43	7.09	6.35	6.42	6.03	5.65

Note: Prices were converted from $ per Mcf to $ per MMBtu using an average

heat content of 1,027 Btu per cubic foot as published in Table A4 of the Annual Energy Review 2002.
Source: Energy Information Administration, Office of Oil and Gas.

Storage:
Working gas in storage totaled 2,763 Bcf as of Friday, July 14, which is about 26 percent above the 5-year average inventory level for the report week, according to EIA's *Weekly Natural Gas Storage Report* (See Storage Figure). During the week, the implied net injection of 59 Bcf was 25 percent less than the 5-year average of 79 Bcf and equal to last year's injection of 59 Bcf. As of July 14, stocks exceeded last year's level by 427 Bcf and the 5-year average by 562 Bcf. With working gas levels well above historical levels for this time of year, lingering uncertainty about the sustainability of the current price level may have contributed to the below-average injection. During the report week, temperatures in the Lower 48 States were warmer than normal. However, cooling degree days were below normal in the East South Central and South Atlantic Census Divisions. Overall, cooling degree days (CDD) were about 6 percent above normal on average in the Lower 48 States. (See Temperature Maps)

All Volumes in Bcf	Current Stocks 7/14/06	One-Week Prior Stocks 7/7/06	Implied Net Change from Last Week	Estimated Prior 5-Year (2001-2005) Average	Percent Difference from 5 Year Average
East Region	1,509	1,464	45	1,196	26.2%
West Region	384	376	8	319	20.4%
Producing Region	870	864	6	686	26.8%
Total Lower 48	2,763	2,704	59	2,201	25.5%

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database.
Row and column sums may not equal totals due to independent rounding.

Other Market Trends:
DOE Selects Research Projects Targeting Tight Gas Resources: The National Energy Technology Laboratory within the Department of Energy's (DOE) Office of Fossil Energy announced two research projects on Monday, July 17, that were chosen under a DOE funding opportunity. The two projects target tight gas, which is an unconventional form of natural gas found in low-permeability gas formations. According to the Energy Information Administration (EIA), unconventional production of natural gas, including tight gas, gas shales, and coalbed methane, is the largest source of U.S. natural gas supply and is expected to grow as many of the conventional natural gas resources have been discovered. Unconventional gas production in the Lower 48 States was 7.5 trillion cubic feet in 2004, which was about 40 percent of total U.S. natural gas output. Production from Gulf deepwater reservoirs is also increasing. EIA expects Lower 48 unconventional production to increase to 9.5 Tcf in 2030. Tight gas is the largest of the three unconventional gas resources, but challenges occur in producing this resource because of the impermeable nature of the reservoir rocks, small reservoir compartment, abnormal pressures, difficulty in predicting natural fractures that help gas flow rates, and the need to avoid reservoirs that produce large volumes of water. The two selected projects focus on tight gas recovery technologies. The first project, proposed by the University of Texas at Austin, will design and implement enhancements to the fracturing process. The second project, proposed by the Massachusetts Institute of Technology, will develop a method to better locate and characterize naturally fractured sweet spots and induced fractures in tight gas formations. For each project, DOE is providing close to or over half of the total cost.

MMS Announces Deepwater Discoveries: The Department of the Interior's Minerals Management Service (MMS) announced that companies have made seven new discoveries of deepwater oil and gas in the Gulf of Mexico since January 2006. Deepwater discoveries refer to those located in water depths greater than 1,000 feet. This year's discoveries, to date, range from the Redrock prospect in Mississippi Canyon 204, which is located in water 3,334 feet deep, to the Gotcha prospect in Alaminos Canyon 856, which is located in water 7,600 feet deep. Production from Gulf of Mexico deepwater reservoirs is an increasingly important source of natural gas. Although production from these areas has declined slightly in the past 2 years, the percentage of total production from deepwater areas has steadily increased since 1985. In 2005, natural gas production from deepwater areas was about 1.2 trillion cubic feet, which represented about 38 percent of total natural gas production in the Federal Gulf of Mexico that year.

Natural Gas Transportation Update:
ANR Pipeline Company announced that it has shut in the Mooreland Plant Outlet meter station located in Oklahoma because of an unforeseen pipeline repair and replacement at its Mooreland compressor station. ANR will not be accepting any volumes or nominations at this location until further notice. In addition to the meter station shut-in, ANR also restricted capacity of the Patterson-to-Eunice delivery line to 650,000 decatherms (Dth) per day, citing an unforeseen engine outage at the Patterson compressor station. The outage occurred for the gas day Monday, July 17, and resulted in curtailment of the firm secondary and interruptible transportation service.

Florida Gas Transmission Company (FGT) has issued an overage alert day for the past 5 days, ranging between 15 and 25 percent each day. The company also announced that scheduled delivery volumes will be reduced to 110,000 MMBtu per day at the Transco Citronelle/FGT interconnect in Mobile County, Alabama, because of pressure reductions. Normal capacity at the interconnection is 300,000 MMBtu.

Southern Natural Gas Company announced that the White Castle compressor station was shut in on Sunday, July 16, because of unscheduled repairs. As of July 18, repairs had progressed sufficiently so that Southern was able to raise the capacity on the west leg upstream of the Franklinton compressor station in South Louisiana. On Tuesday (July 18), Southern raised total available capacity from 550,000 Dth to 625,000 Dth, followed by an increase to 655,000 Dth on Wednesday (July 19).

Northern Natural Gas issued a notice on July 19 stating that its positive interruptible deferred delivery (IDD) storage inventory allocation will be extended from July 31, 2006, to October 31, 2006 (inventory allocation period). As is the case with other storage operators, Northern continues to experience high storage inventories. While IDD shippers have significantly decreased their inventory balances this month, Northern reported that the company will continue to have limited capacity for IDD volumes for the remainder of the refill season. Shippers whose IDD account balance at the end of the April 21 gas day was negative must have a balance no greater than zero on October 31, while those with positive balances at the end of the April 21 gas day must have a balance no greater than that on October 31.

Short-Term Energy Outlook